

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 XMB-02 /128 W
-----097502 200935Z /20

R 191643Z APR 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5498
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBSSY PARIS
AMCONSUL OPORTO
AMCONSUL PONTA DELGAGA

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BRUSSELS FOR EEC

GENEVA FOR MTN

PARIS ALSO FOR OECD

EO 11652: N/A
TAGS: ECON, EFIN, PO
SUBJECT: ECONOMIC DEVELOPMENTS

BEGIN SUMMARY. ON APRIL 14 THE LEGISLATIVE ASSEMBLY APPROVED,
AFTER FIVE DAYS OF DEBATE, THE 1978 BUDGET BY A PREDICTABLE
MAJORITY. GOP-IMF NEGOTIATIONS CONTINUE ADMD DEVELOPING CON-
SENSUS THAT AN AGREEMENT IS INEVITABLE. MINI-MARSHALL PLAN
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SUGGESTION FOR PORTUGAL AGAIN RECEIVES AIRING. CONSUMERS
LEARN OF ADDITIONAL PRICE INCREASES. SEED DAMAGE WILL HURT
CEREALS PRODUCTION. PUBLIC TRANSPORTATION DEFICITS ARE AN-
NOUNCED. PETROGAL AWAITS OIL EXPLORATION AUTHORIZATION. ESCUDO
DEPRECIATES STEADILY IN RELATION TO U.S. DOLLAR. END SUMMARY.

1. NATIONAL ASSEMBLY APPROVES BUDGET: ON APRIL 14,

AFTER FIVE DAYS OF DEBATE WITH NO SURPRISES AND LITTLE VISIBLE ACRIMONY, THE LEGISLATIVE ASSEMBLY APPROVED THE 1978 BUDGET AND DEVELOPMENT PLAN. THE PS-CDS COALITION PROVIDED ALL OF THE 127 AYE VOTES; THE 100 NAY VOTES CAME FROM THE PSD, PCP, UDP AND INDEPENDENTS.

2. IMF NEGOTIATIONS: GOP AND IMF NEGOTIATING TEAMS CONTINUED THEIR SECRET DISCUSSIONS LAST WEEK IN AN EFFORT TO REACH AGREEMENT ON THE KEY ISSUES DIVIDING THEM. MINISTER OF FINANCE VITOR CONSTANCIO STATED PUBLICLY APRIL 17 THAT AN AGREEMENT COULD BE CONCLUDED WITHIN DAYS. EVEN HOSTILE ELEMENTS OF THE PORTUGUESE POLITICAL SPECTRUM, INCLUDING ALVARO CUNHAL OF THE PCP, HAVE ACKNOWLEDGED THE INEVITABILITY OF A GOP-IMF AGREEMENT. CUNHAL CONTINUED TO WARN, HOWEVER, OF A LOSS OF PORTUGUESE SOVEREIGNTY TO AN INTERNATIONAL BODY CONTROLLED BY THE U.S. LOOKING SOMEWHAT AHEAD, PRIME MINISTER MARIO SOARES TOOK UP THE IDEA OF A "MARSHALL PLAN" FUNDED BY THE RICHER NATIONS OF NORTHERN EUROPE FOR THE BENEFIT OF THE POORER MEDITERRANEAN COUNTRIES. SOARES CONCEDED, HOWEVER, THAT THIS PLAN COULD ONLY FOLLOW A FORMAL AGREEMENT WITH THE IMF.

3. MORE PRICE INCREASES: FOLLOWING THE INITIAL ROUND OF PRICE INCREASES FOR PUBLIC SERVICES AND "MARKET BASKET" COMMODITIES, THE GOP ANNOUNCED PRICE RISES ON A VARIETY OF GOODS AND SERVICES, A SAMPLING OF WHICH FOLLOWS:
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--COMMON HOUSE WINE IN RESTAURANTS WILL RISE TO 32 ESCUDOS PER LITER FROM PREVIOUS 26;
--WHITE GRANULATED SUGAR WILL INCREASE FROM 19.5 ESCUDOS TO 22.5 ESCUDOS PER KILOGRAM;
--BEEF, WHETHER NATIONAL OR FROZEN/IMPORTED, WILL INCREASE FROM 250 TO 300 ESCUDOS PER KILO FOR THE FILET MIGNON CUT AND FROM 230 TO 270 ESCUDOS PER KILO FOR THE SIRLOIN CUT;
--FOR THE PORTUGUESE AUTO ENTHUSIAST, A NEW BMW 1502 WILL COST 380,000 ESCUDOS (9,300 U.S. DOLLARS); A FIAT 131 MIROFIORI, 249,000 ESCUDOS (6,100 U.S. DOLLARS); AND A MORRIS MINI, 198,000 ESCUDOS (4,800 U.S. DOLLARS).
--FINALLY, DOMESTIC POSTAL RATES WILL RISE FROM 4 TO 5 ESCUDOS FOR LETTER AND FROM 3 TO 4 ESCUDOS FOR POSTCARDS. TELEGRAMS OF 30 WORDS WILL INCREASE FROM 40 TO 50 ESCUDOS.

4. ALENTEJO SEED DAMAGE: HEAVY RAINS HAVE CAUSED CONSIDERABLE DAMAGE TO BARLEY, OAT AND WHEAT "EARLY-MATURING" SEEDS WHICH WERE MISTAKENLY PLANTED IN OCTOBER RATHER THAN IN NOVEMBER. CEREAL PRODUCTION STILL PROMISES TO SURPASS LAST YEAR'S DISASTROUSLY POOR CROP, BUT WILL PROBABLY BE WELL BELOW AVERAGE PRODUCTION OF THE PAST TEN YEARS.

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5. PUBLIC TRANSPORTATION DEFICITS: MINITER OF TRANSPORTA-
TION AND COMMUNICATION FERREIRA DE LIMA HAS REPORTED 1977
PUBLIC TRANSPORTATION DEFICIT OF 17 BILLION ESCUDOS (US \$
415 MILLION AT 41 ESCUDOS PER DOLLAR). DESPITE RECENT
FARE INCREASES, GOP EXPECTS 1978 DEFICIT TO TOTAL 11
BILLION ESCUDOS (US \$270 MILLION) INCLUDING THE FOLLOWING
COMPONENTS: RAILROADS, 4.9 BILLION ESCUDOS (US \$120 MILLION);
NATIONAL INTER-URBAN BUS SYSTEM, 1.5 BILLION ESCUDOS
(US \$37 MILLION); LISBON MUNICIPAL TRANSPORT, 700 MILLION
ESCUDOS (US \$17 MILLION); AND MARITIME TRANSPORT, ALSO
700 MILLION ESCUDOS. ANTICIPATED DEFICIT REDUCTION OF 6
BILLION ESCUDOS IN NOMINAL TERMS REPRESENT SIGNIFICANT AD-
VANCEMENT, BUT PUBLIC TRANSPORTATION WILL CONTINUE TO BE
SEVERE DRAIN ON GOP RESOURCES.

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6. ON-SHORE OIL EXPLORATIONS: PETROGAL IS AWAITING GOVERNMENT AUTHORIZATION TO COMMENCE, IN JOINT VENTURE WITH SHELL PROSPEX, ON-SHORE OIL EXPLORATION ON SOUTH SIDE OF THE TAGUS RIVER BETWEEN SANTAREM AND SEIXAL. SHELL PROSPEX ALONE WILL FINANCE INITIAL SURVEY. PETROGAL IS DISCUSSING ALSO JOINT VENTURE WITH ANGOLAN COMPANY FOR OIL EXPLORATION IN THAT COUNTRY.

7. ESCUSO RATE: ESCUDO/DOLLAR BUY RATE, WHICH STOOD AT 41.005 ON APRIL 5 MAINTAINED ITS STADY COURSE ABOVE 41 PER DOLLAR AND CLOSED AT 41.419 ON WEDNESDAY, APRIL 19. ESCUDO HAD FOLLOWED DOLLAR DURING LATTER'S DECLINE IN PAST WEEKS BUT HAS NOT KEPT PACE WITH DOLLAR'S RECENT UPWARD TREND.
BLOOMFIELD

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Message Attributes

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